

Mackinac Center for Public Policy

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Survey: School Outsourcing Grows

By Michael D. LaFaive,
and Daniel J. Smith

School districts face the same cost pressures as companies in the private sector in trying to deliver a quality product at the best price. One method used by firms in both the public and private sectors to achieve greater efficiency is the outsourcing of ancillary business operations. Michigan schools are contracting out more nonessential work than ever before, according to the Mackinac Center for Public Policy's 3rd biennial school privatization survey.

This year the Mackinac Center successfully interviewed a representative from every one of Michigan's 552 school districts to determine how many of them use outside vendors for three primary noninstructional services: food, janitorial and busing. The number of districts that contract out rose from 34.0 percent in 2003 to 35.5 percent currently. Today, 196 of the state's school districts outsource at least one of these three functions.

By far the most popular area of school privatization is in food services: 156 Michigan school districts (over 28 percent) contract out with a private company for some type of food service delivery. While janitorial outsourcing occurs much less frequently than in the food services arena, there is a growing interest in it. Janitorial services are now outsourced in 8.7 percent of districts, up from 6.6 percent just two years ago.

The survey also asked respondents about whether outside vendors had saved the district money, if the district was satisfied with its contracting experience, and what barriers (if any) existed to thwart privatization. Almost 80 percent of the districts reported savings through privatization, though some had difficulty quantifying precisely how much had been saved.

Only eight districts reported no savings, but this number should be interpreted carefully. Over the years some districts have reported to us that they didn't care about saving money as much as they were seeking to get out of a particular business — such as busing — so they could concentrate on their mission of educating kids.

The most significant barrier to privatization, according to 25 percent of those respondents willing to answer this question, was employee and union opposition. This opposition should not surprise even the most casual observer. Members pay hefty dues to unions that fight the type of competitive bidding that has saved many districts money while improving services. The Michigan Education Association has long opposed contracting out, even though it has in the past contracted for various support services at its own headquarters — and in some cases with non-union firms.

On July 11 Kent City schools became the most recent district in the state to privatize its food service program. Another addition to the Center survey is the Avondale school district in Auburn Hills. Timothy Looch, assistant superintendent for business services reports that contracting with Chartwells, a popular food service company, has meant that "We are better off and the students are better off." According to Looch, the district went from paying a \$100,000 subsidy to the food program to posting a profit of up to \$25,000 after Chartwells took over. He also added that Chartwells gave them a better quality food product and more selections.

Notably, food service for the entire Iron Mountain school district in Dickinson County is provided by the 144-student Dickinson Area Catholic School. The public school district is reportedly happy with their services, though not surprisingly they can't get meat on Friday during Lent.

While the purpose of this survey was to specifically investigate contracts that districts held for basic noninstructional services, we found that many districts are using competitive contracting in other areas. For

example, the Birmingham Public Schools maintains a comprehensive list of more than 60 services for which it utilizes outside contractors. The district is saving more than \$50,000 annually by outsourcing 80 percent of its lawn mowing needs from April through November.

Done correctly, privatization can and does save money and often improves the quality of services for school districts willing to adopt this cutting-edge management technique. Best of all, the savings realized can be invested in efforts that more directly impact the classroom experience of our children.

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East Lansing's Contract With the "King of Clean"

By Jon B. Perdue,
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In a move to close a potential \$4.2 million budget deficit in 2005, East Lansing Public Schools this year endorsed the continued privatization of the district's custodial operations. Administration officials had built a trial year into the school system's contract with Jani-King International Inc., so they could assess the company's first-year performance before deciding whether to complete the remainder of the five-year contract they signed with the firm. Having decided this year that the company had provided good service, the district has now entered into the second year of its contract with the commercial cleaning organization, which bills itself as the "King of Clean."

Initially, the proposed contract was met with strong opposition from a coalition of district employees and unions, including the Michigan Education Association. But the school board voted in June 2003 to approve the contract, anticipating that privatization would help to address the budget crisis then facing the school district.

The decision paid off.

After the private custodial company's first year of work for the district, the district's finance department reported savings of roughly \$800,000. The savings were a result of the lower cost of services provided under the contract.

Maria Bolen, director of finance for East Lansing Public Schools, is pleased with the decision and its effects in the previous year. "There is a lot more administrative control," Bolen said. "We have much more control over the custodial staff, and we are able to put in people of our choosing." Bolen also noted positive changes after the newly contracted company replaced the former public employees, such as more appropriate use of employee vacation time.

In contrast to some school districts, which have only outsourced parts of their janitorial services, East Lansing Public Schools decided to privatize all aspects of its custodial operation. Bolen believes that the decision will have some influence on other schools' consideration of similar outsourcing, particularly the many school districts in surrounding areas that are facing budget crises. "We're getting all kinds of calls from districts around the state to see how it has worked out," she said. "I feel like we're the wave of the future, on the cutting edge."

The decision by the school board to privatize came roughly a decade after a recommendation published by the Mackinac Center for Public Policy suggested that East Lansing Public Schools begin outsourcing its custodial services, since the district was paying four to five times more for janitorial services than local businesses were.

As schools statewide face budget shortfalls, privatization is gaining popularity. According to Chris West, a former Jani-King employee, this trend will be of enormous benefit to all involved. When interviewed by Michigan Privatization Report, he said, "A lot of what we come across in schools is a real grandfathered tradition of getting away with not having to work all that hard," West said. "There are those who take it seriously, but the vast majority do not."

Jani-King is careful to monitor the quality of its staff. According to Richard Grant of Jani-King, the company "does extensive background checks on employees, and school administrators get the last say on who works on school property."

The East Lansing district also considered outsourcing its food and transportation services this year. The decision would have saved the district significant sums, in part through the removal of such budget items as new school

buses.

But Bolen stated: "It doesn't look like it will be a go for other privatization right now. The board wanted to maintain some stability." The board unanimously approved keeping its food services staff after the staff submitted a proposal to retain their jobs that nearly matched outside bids. Bolen predicts, however, that the suggestion of further outsourcing will become routine in the next few years, as enrollment drops and the district continues to see its budget problems grow.

Privatizing schools' noninstructional services, such as custodial operations, allows school districts not only to save money, but in many cases to improve the quality of service. After little more than a year, East Lansing Public Schools is already reaping the rewards.

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